

Microenterprise performance and microenterprise zones (MEZO) in China.

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Abstract:

Purpose – The purpose of this exploratory study is to examine whether performance of microenterprises located in a microenterprise zone (MEZO) in China is positively related to key management practices, entrepreneurial orientation, marketing capability, and technology capability. The paper aims to introduce the concept of MEZOs as a supplemental tool for governments to strengthen microenterprise activity.

Design/methodology/approach – A total of 150 randomly selected microenterprises located in a MEZO in Changchun, an industrial city in Northeast China, completed a survey consisting of a three-part measure of microenterprise performance developed by Zinger et al. and entrepreneurial orientation. Factor analysis was performed on 11 management issues and correlation analysis was performed.

Findings – The study found that key management practices, marketing capability, and technology capability of microenterprises in MEZOs do have a positive impact on performance sales, net profit, and growth.

Research limitations/implications – The study's results are limited by a sample in one city in one province of China collected in one month. The data are cross-sectional rather than longitudinal. Sample bias may exist.

Practical implications – This study is valuable to government officials, policy makers, non-government organizations and consulting firms as they examine new measures to unleash the economic power of microenterprises.

Social implications – MEZOs need to be explored as one solution to aide microenterprise development to improve the poverty level, create jobs, and stimulate economic activity.

Originality/value – To the authors' knowledge, this is the first exploratory study of the performance of microenterprises located in a MEZO in China. Through research, the factors that contribute to microenterprise performance and success can be better understood and the impact that the MEZO model has on microenterprises can be better delineated.

Keywords: China | economic performance | emerging markets | microenterprises | small enterprises

Article:

1. Introduction

Microenterprises are an important economic segment of countries. These ventures tend to have gross sales of under \$25,000 a year (Tinker, 2000). In the case of many African nations, the combination of micro and small enterprises contribute to about half of all people employed (Chao et al., 2007). In Indonesia, small and medium enterprises, including microenterprises, comprise about 90 percent of firms outside of the agricultural industry (Tambunan, 2007). Other locations, such as Mexico, have seen an increase in informal microenterprise activity in recent years (Hernandez-Trillo et al., 2005). As an emerging economy, China's economic terrain has a high presence of small and microenterprises. Microenterprises constitute street vendors, retailers, and traders that sell products or services to build income and expand assets (Eversole, 2004) and these businesses are omnipresent in both urban and rural locations in China.

Public and private entities are becoming increasingly aware of the merits associated with microenterprise development. Interest in microenterprises has led to 37 scholarly articles being written on various aspects of microenterprise development around the world. There are numerous benefits ascribed to microenterprises and their development include: job creation (Daniels, 1999; Tamilmani, 2009), financial betterment (Daniels, 1999; Ellis, 2000), strengthening of the economic framework (Davis, 2003), contributions to lower prices of goods and services (Kirkpatrick and Hulme, 2001), poverty alleviation (Dokmo, 2002), improvements to poverty-stricken neighborhoods (Nelson, 2000), community building and inner-city development (Friedman, 2001), and social and political betterment (Holt and Ribe, 1991).

Initiatives geared towards the growth and expansion of microenterprise activity have the potential of transforming societies as they can lead to job creation and revenue generation. This paper examines key challenges confronting microenterprises and introduces the concept of Microenterprise Zones (MEZOs). MEZOs are government designated zones that offer business and tax incentives to all operators situated in the zone. In recent years, many governments around the world have established Free Trade Zones (FTZ's), Export Processing Zones (EPZ's)

and Technology Parks (TP's) in order to attract foreign investors. The authors posit that there are merits in establishing MEZO's where microenterprise activities will be clustered.

2. Characteristics of microenterprises

There are several defining characteristics of microenterprises. A common perception is that they operate on a small scale and have gross sales of under \$25,000 a year (Tinker, 2000). From a business standpoint microenterprises are perceived as:

Owner-operated business endeavors. They are owned and managed by the owner and their families, have few employees, and are constrained by capital (Tezler, 1992; Langer et al., 1999).

Engaged in diverse entrepreneurial activities. Microenterprises engage in service, manufacturing, and sales initiatives and typically include street vendors, retailers, and traders who are motivated to build income and expand their assets (Eversole, 2004; Baumann, 2004).

Organized in several forms. In operating their enterprise, microenterprises typically structure themselves in different ways including sole proprietorship, partnership, or a family enterprise, and commonly have between five to ten employees (Storey, 1994; Walls et al., 2001).

Driven by flexible arrangements and seasonality. Many microenterprises are affected by tough economic times and seasonality, yet manage to survive through flexibility and adaptability (Piore and Sabel, 1984; Eversole, 2003; Buechler and Buechler, 1992). Many microenterprises have the ability to respond to market and customer demands in a timely fashion (Herman Trend Alert, 2003).

Require external support to flourish and thrive. Microenterprises are easily launched and terminated with changes such as family ailments and economic challenges (Larson and Shaw, 2001; Eversole, 2003). Many microenterprises operate in the informal sector and badly need capital to survive (Hernandez-Trillo et al., 2005; Eversole, 2004). Due to their sizeable economic presence and financial fragility, these business units need the attention of both the government and private sectors.

3. External challenges confronting microenterprises

Upon a thorough review of the literature, the authors have summarized significant external challenges in order to assess the potential for Microenterprise Zones (MEZOs). The authors

argue that the formation of Microenterprise Zones (MEZOs) could lessen or alleviate many of these challenges with adequate support systems and networking available through the MEZOs.

Poor location. Many microenterprises are disadvantaged by unfavorable geographic location or geographic isolation (Eversole, 2003; Duncombe and Heeks, 2002).

Inadequate infrastructure and transport access. Microenterprises tend to be constrained by poor infrastructure and inaccessibility to suitable modes of transportation (Tamilmani, 2009; Rogerson, 2006).

Absence of trading or working venue. Microenterprises experience difficulties in cultivating their business due to physical space constraints (Ghate et al., 1996).

Lack of social networks. Many small- and medium-sized enterprises do not have the resources and ability to engage in effective networking and often do not have organizations where they can have a unified voice (Tambunan, 2007; Hulme and Shepherd, 2003).

Economies of scale. Manufacturing inefficiencies and the inability to capture advantages from economies of scope and scale prohibit microenterprises from adding economic value and accumulating capital (Baumann, 2004; Hernandez-Trillo et al., 2005).

Poor research and information access. Microenterprises need research assistance and often do not have access to important market information (Goldmark, 2001; Tamilmani, 2009).

Lack of integration. Many microenterprises are not adequately linked to suppliers and key markets (Hulme and Shepherd, 2003; Qualmann, 2000).

Lack of legal, safety, and security protection. Microenterprises face challenges pertaining to contract enforcement as well as property rights issues (Sukiassyan and Nugent, 2008; Tambunan, 2007). In addition, they face losses from theft (Rogerson, 2006).

Lack of business support. Microenterprises need business support such as credit access (Herman Trend Alert, 2003), access to those that possess financial competency and an understanding of labor costs, labor laws, operational resources, and technology (Ehlers and Main, 1998; Fafchamps, 1994), business training and marketing assistance (Goldmark, 2001; Lerner et al., 1997), and the understanding of quality standards and branding issues (Horn, 2009; Tamilmani, 2009).

Government barriers and bureaucracy. Microenterprises are sometimes constrained by government trade policies and bureaucracy (Herman Trend Alert, 2003; Ghate et al., 1996).

Lack of access to those with entrepreneurial and management capabilities. Lucas (1978) found that an individual's return from self-employment is shaped by access to entrepreneurs and those with a high level of management capabilities.

Research suggests that there are in fact several challenges that could inhibit microenterprise growth and development. Eliminating all these challenges does not guarantee microenterprise success. However, through the elimination of some of the identified barriers to development the chances for venture success are improved. In the following section, the authors introduce the Microenterprise Zone (MEZO) model and how MEZO can potentially address many of the challenges mentioned.

4. The Microenterprise Zone (MEZO) model

The proposed Microenterprise Zones (MEZO) are special government zones or areas where business operators are entitled to specialized support, incentives, and privileges. They are similar to Export Processing Zones (EPZs) and Technology Parks (TPs) for the following reasons:

they are government endeavors that provide an opportunity for government and private sector collaboration;

they aim to create synergistic business clusters in designated geographic locations;

they facilitate and support diverse business endeavors and contribute to their success;

they offer specialized incentives such as low-rent, access to specialized skills, and tax breaks; and

they have the ability to create a national economic boost through job creation, expansion of business activities, and income tax generation.

While there are significant similarities, MEZOs are different from EPZs and TPs in important ways. First, EPZs tend to draw large companies from overseas; MEZOs aim to attract local microenterprises. Second, while EPZs and TPs often build on state-of-the art technologies and systems, MEZOs cultivate low-tech grass root ventures that represent a broad segment of the economy. Third, while EPZs and TPs tend to cater to overseas customers, MEZOs serve mostly domestic consumers.

MEZOs are characterized by the following:

Created through a government or government-private collaboration. MEZOs can be created by governments through the designation of a Microenterprise Zone or Microenterprise Park. Business enterprises situated within the MEZO shall be entitled to specialized government business support (i.e. skills training, administrative and marketing support, and financial counseling); free or discounted use of space; simplified and expedited business registration processes; shared utilities and other operational expenses to take advantage of economies of scale (i.e. common technology centers with computer, internet, fax, and other support); and tax holidays for a specified period of time. In certain instances, MEZOs may also be implemented through a government-private partnership or joint venture.

Strategic geographic location. MEZOs can be situated in depressed communities that need to be re-energized, areas with high potential for the development of a specialized industry or trade (i.e. indigenous crafts, seafood processing), areas experiencing very high migration rates, areas with the potential to provide unique support to large industries, such as skilled labor contracts and food processing, and even in locations with high incidence of poverty and unemployment. MEZOs can be applied to different themes and concepts depending on government priorities and goals.

Opportunity for job creation and poverty alleviation. MEZOs can be implemented in several creative ways. A MEZO can be a large facility such as a large multi-million microenterprise park that would have its own manufacturing complex, retail facility, and business support center. It can be an unused government building. It may also be a small facility that is specifically tailored to the needs of a community or industry sector. MEZOs present an opportunity to create jobs and help improve the conditions of the poor and to facilitate the entry of the informal sector into the formal sector.

Productivity improvement. MEZOs provide a hub where microenterprise activities can be combined. Through these clusters, business support initiatives can be more efficiently provided and monitored. As a result, productivity may be improved.

Economic contribution. Initially, a commitment of government resources is necessary to start MEZOs within a country. With efficient management and through strategic partnerships, MEZOs can generate income through future tax collections, rental fees, and business service fees. MEZOs can also help alleviate the economic condition of the poor, improve health and sanitation, lower crime rates, and help improve the environment through the utilization of green technology and sustainable approaches.

Improved social relationships. Whether between formal organizations, businesses, or communities, MEZOs improve the social relationships between and within sectors or groups that shape the developmental performance of microenterprises. Woolcock (2001) found that this is vital to the success of microenterprises and that an understanding that relationships are dynamic

rather than static and can change over time and affect the success or failure in the future. Additionally, Woolcock (2001) found that success of microenterprise programs depends on how well these businesses and their owners are integrated into the formal economy. MEZOs strategically should have a higher success rate at integrating these businesses into the mainstream due to a stronger support and social relationship structure.

5. MEZOs applied to China

China has had a long history of entrepreneurship. The economy was largely based on small businesses' success before 1949 when the communists took power. Between 1949 and 1979, the Chinese communist government advocated a central planning economic system and nationalized all the private businesses into state owned enterprises. As a result, China's economy was on the brink of total collapse in late 1970s. To rescue their economy, the Chinese government started to bring private businesses back into the country in 1980. To ease the transition from a centrally planned economy to a market based economy, in August 1980 the government set up a Special Economic Zone in a small fishing village in Southern China, called Shenzhen Special Economic Zone (SSEZ). Within this zone, private enterprises, especially small businesses/microenterprises, were encouraged and market forces were in full play. However, the rest of the country was still under the planned economy. The tremendous success of SSEZ encouraged the government to introduce a market economy nation-wide several years' later. The small businesses and microenterprises have developed the small fishing village of SSEZ into a modern city comparable to Hong Kong in a matter of 30 years.

The evolving landscape has led to the emergence of the private sector and changes in ownership described as a “quiet revolution” in the country (Garnaut et al., 2001). This environment has been categorized as dynamic and highly competitive (Li et al., 2008).

Within a few decades, the country has experienced rapid transformation. The government's renewed emphasis on trade expansion in the 1970s and 1980s set the stage for modernization, inward FDI, and private sector business participation (Chow, 2002).

The Chinese economy is booming and expanding in profound ways (Naughton, 2006). This environment has spurred fast economic growth and the emergence of new business models (Hassard et al., 2004). In 2010, the country had a GDP of \$10.9 trillion and outperformed all major economies with a GDP growth rate of 10 percent (CIA World Factbook, 2011). Now, small businesses are an important segment in the Chinese economy. Since 1999, more than 10

million small and medium-sized enterprises were registered in China (Anderson et al., 2003). These businesses produce about 60 percent of gross industrial output (Chunyun, 2003). With globalization and trade liberalization, this number is growing rapidly and the economic impact is profound. Challenges still exist for small businesses, including a lack of clarity on government transformations, corruption, poor planning, little regard for shareholder rights, and market manipulation (Li, 1998; Tam, 2002; Chandler, 2004). Lack of access to formal financial channels has also been identified (Wang and Yao, 2002).

Culture also factors into the way business is conducted. In the Chinese culture, the emphasis on relationship building or *guanxi* (Li and Wright, 2000) can lead to business approaches that are divergent from Western practices. *Guanxi* can lead to the release of private information, expedited work, and debt collection, which can lead to higher business costs (Barnathan et al., 1996; Oriental Daily News, 1993). Networking and the use of contacts for business creation and distribution expansion is common among SMEs (Siu, 1995). In the Chinese society, social harmony is emphasized and politics factor into business practices (Yang, 1994; Steidlmeier, 1997). Despite these challenges, much success has been achieved in Chinese businesses.

Jagersma and van Gorp (2003) identified six approaches to business success in China:

organizational adaptability;

a long-term perspective;

careful partner and alliance selection;

focus on local knowledge building;

proactive use of local, regional, and national network and resources; and

operations based on simplicity.

The Chinese government understands the importance of the private sector in economic development and has provided key support (Chow, 1995). The country has been undergoing an aggressive reform phase. Self-employment and small-scale enterprise development has been encouraged (Wang, 2004). Small businesses have been the focus of government attention as these businesses contribute to income and social stability (Asia Monitor, 2003; Chunyun, 2003). In 2003, the Chinese government established the SME Promotion Law that supports small- and medium-size businesses by encouraging local governments to establish support systems for small businesses and integrate them into their developmental plans (Atherton and Fairbanks, 2006).

With expanding government support, the role of small- and medium-size enterprises is growing in importance in China (Chunyun, 2003). With the huge success of Special Economic Zone in Shenzhen city, the Chinese government started to expand the special economic zones, including MEZOs to other major Chinese cities. This policy planted the seeds for microenterprises to prosper in China.

6. Hypotheses

This study aims to identify a correlation between the management approaches utilized by microenterprises and their level of success, as measured by profitability. The hypotheses proposed were developed from a study by Zinger et al. (2001) that examined the factors influencing early stage performance in 145 microenterprises in Canada. The study found that managerial capability played a major role in success and had three dimensions:

marketing management;

financial/operations management; and

technological management or capability.

While all three variables were significant, marketing played the biggest role in positive business performance and was associated with the level of financing secured from outside sources. Our hypotheses replicate the study by Zinger et al. (2001) in relation to microenterprise performance in our exploratory study in a MEZO in one Chinese city. In addition, Lucas (1978) and Fafchamps (1994) found that self-employment performance is shaped by management ability. Therefore, we propose:

H1. Chinese microenterprises' performance in MEZOs is positively related to key management activities.

In addition, Lee and Rogoff (1997), Lucas (1978), and Lerner et al. (1997) found that entrepreneurial attributes play a key role in the success of a microenterprise and influence profitability. Therefore:

H2. Chinese microenterprises' Entrepreneurial Orientation (EO) in MEZOs is positively related to management issues, net profit, growth, cash flow, and sales.

Managerial ability such as aversion to risk, financial competency, and operational flexibility has been found to shape microenterprise performance (Fafchamps, 1994; Schutjens and Wever, 2000; Zinger et al., 2001). Therefore:

H3. Chinese microenterprises' in MEZOs general management capability and new product capability have a positive impact on firm growth.

Technology competency has been shown to impact microenterprise success such it contributes to cost and productivity efficiencies (Fafchamps, 1994; Zinger et al., 2001). Therefore, we posit that:

H4. Chinese microenterprises' staff and technology capability in MEZOs have a positive impact on sales, net profit and cash flow.

7. Methodology

7.1 Sample

The local government directory of industry was used for random selection of the survey sample of microenterprise businesses in the MEZO of Changchun, an industrial city in Northeast China. A total of 300 microenterprises associated with MEZOs were randomly chosen for the study. Of the 300 firms telephoned, 198 firms were willing to participate in the survey. A group of six graduate students were recruited to conduct onsite surveys; each was responsible for approximately 30 firms. The six graduate students were briefed about the study. About 30 firms did not participate in the interview due to senior management unavailability at the time of field visit. The survey resulted in a total of 168 completed interviews during the span of one month due to various schedule conflicts and unavailability of top managers. Finally, 150 valid interviews were used for analysis. Eighteen interviews were discarded because of critical missing information.

Of the 150 participating firms, 16 percent were retail/wholesale businesses, 12 percent were personal services businesses, 27.3 percent in manufacturing, 23.3 percent in professional services, 11.3 percent in construction/contracting businesses, and 10 percent in computer/software businesses. Of these firms, 53.3 percent were family-owned, while 46.7 were non-family businesses. As expected, more than 60 percent of these firms employed less than 50 people, a typical size for a microenterprise in China. A majority of these firms were first generation owned (73.3 percent), while only about four percent were in their third generation of ownership. Of these businesses, only 20 percent were in the business for more than ten years. The rest of the businesses were new with less than ten years in the market. A surprising feature of these microenterprises, as compared to other developing countries, was that half of them employed no family members (48.7 percent) or relatives (54.7 percent).

The majority of the respondents held top management positions, including the owner (18.7 percent), or CEO/general manager (30 percent). The remainder (51.3 percent) represented senior managers with substantial responsibility for the firms' day-to-day operation. Of the respondents 48 percent were male, while 52 percent were female, comparable to China's micro-business sector. Most of these entrepreneurs are between the ages of 26 to 45, representing a total of 84 percent of all respondents. This age group is most active in China's microenterprises today. They possess much more education than their counterparts in other developing countries, with 30 percent having graduated from college, 56.7 percent possess postgraduate degrees or have attended some postgraduate studies.

7.2 The questionnaire

A questionnaire consisting of three sections on microenterprises replicated from Zinger et al. (2001) and a compilation of questions on Entrepreneurial Orientation (Covin and Slevin, 1989; Miller and Friesen, 1982; Wiklund and Shepherd, 2003) was distributed to microenterprise businesses located in a MEZO in Changchun. Part one consisted of demographic questions, part two contains questions on entrepreneurial orientation, risk taking, and performance in family firms; while part three consisted of questions regarding small business factors. Specifically, questions related to performance were adapted from Wiklund and Shepherd (2003), questions on heterogeneity were adapted from Miller and Friesen (1982), and questions pertaining to innovativeness, proactiveness and risk taking were adapted from Covin and Slevin (1989). The questions in part two were based on five-point and seven-point scale Likert Scale, while questions relating to management issues in part three utilized a 0 to 100 scale.

A questionnaire designed by Zinger et al. (2001) was replicated and translated by two of the researchers fluent in both English and Chinese. The back translation procedure recommended by Earley (1987) was utilized to insure that the Chinese version of the questionnaire accurately reflected the original English version. The translated questionnaire was then pretested among 20 microenterprises in China to seek further improvement before administering the formal survey in 2009.

The questionnaire consisted of five sections: background information, financial resources, the utilization of outside assistance and training (both professional and government), a series of questions pertaining to management practice and two self-reported performance items. For this study, we also used the total number of employees as a means to determine if the business could be considered a microenterprise. By the end of 2009, China's GDP per capita was around \$4,000, which is about a third of the threshold for industrialized nations. Using this criterion, a microenterprise in China is defined as a business with annual gross receipts of up to one million US dollars. In the case of Western Europe and the United States, one third of businesses fall into this category. Close examination of those small firms with one million US dollars in turnover include firms with 50 to 80 employees (except a few high-tech firms). Therefore, we used a definition of a microenterprise as one having one to 80 employees and an annual turnover of the equivalent of one million US dollars for this study.

8. Results

The 11 Management Issues were factor analyzed using principal components and Varimax rotation. We found three factors explaining almost 61 percent of variance. We labeled Factor 1 General Management and Marketing, Factor 2 was labeled Staff and Technology, and Factor 3 New Product Development.

H1 is tested by correlation of Performance (adapted from Wiklund and Shepherd, 2003) with management issues. Performance was significantly correlated with the General Management and Marketing factor ($p < 0.05$) and with Staffing and Technology ($p < 0.01$), but not with New Products, so this hypothesis is partially supported. The results are shown in Table I.

H2 suggests that Entrepreneurial Orientation in Chinese microenterprises is positively related to management issues, profit, growth, cash flow, and sales. Entrepreneurial Orientation consists of the composite variables Heterogeneity (adapted from Miller and Friesen, 1982), Innovativeness (adapted from Covin and Slevin, 1989), Proactiveness (adapted from Covin and Slevin, 1989), and Risk Taking (adapted from Covin and Slevin, 1989). Correlation analysis of Entrepreneurial Orientation with Management Issues, profit, growth, cash flow, and sales is shown in Table II. Heterogeneity was not correlated with any of the Management Issues, profit, growth, cash flow, or sales. Innovativeness was correlated with the development of new products ($p < 0.01$), growth ($p < 0.01$), and sales ($p < 0.05$). Proactiveness was correlated with new products ($p < 0.01$), net profit ($p < 0.05$), growth ($p < 0.01$), cash flow ($p < 0.05$), and sales ($p < 0.01$). Risk Taking was correlated with staff and technology ($p < 0.05$) and with development of new products ($p < 0.01$). Risk Taking was also correlated with profit ($p < 0.05$), growth ($p < 0.01$), cash flow ($p < 0.01$), and sales ($p < 0.01$). H2 is mostly supported.

In H3, general management and new product capability is expected to have a positive impact on growth. Both general management and new product development are correlated with growth ($p < 0.05$). The results are listed in Table III. The hypothesis is supported.

In H4 we expected the staff and technology factor to correlate positively with profit, growth, cash flow, and sales. Correlation analysis indicated support for our predictions and this hypothesis. The results are listed in Table III.

9. Overall findings and discussion

The overview of China's economic landscape indicates that entrepreneurship is on the rise and there is an emergence of microenterprises in the country. The microenterprise survey in China suggests that:

proactiveness and innovativeness have an impact on a firm's growth and sales;

management and new product capability positively impact growth; and

staff and technology capability have a positive impact on growth, sales, net profit and cash flow.

Therefore, our exploratory study on Entrepreneurial Orientation and management activities by microenterprises in one MEZO can positively affect performance. China is still in a transition from a planned economy to a market economy. The market system is not fully established and regulations tend to be lag behind. As a result, those who dare to take the risk tend to have early success as first movers. The survey further suggests that innovation and proactiveness have a positive impact on firm growth. Thus, firms are strengthened when they receive support for innovation and a culture of proactiveness is encouraged.

The Microenterprise Zone (MEZO) model provides support to microenterprise innovation, new product capability, and staff and technology competencies in several ways. The MEZO model:

enhances government and private sector collaboration (i.e. skills training);

contributes to productivity enhancement; and

provides the foundation for enhanced financial operations and future success.

The MEZO model can be useful in emerging markets such as China. Studies suggest that in locations where there exist combined conditions of a high unemployment rate and a high incidence of poverty, measures relating to microenterprise development can lead to a favorable impact (Baptista et al., 2006). Based on the results from China, the authors suggest more research be conducted with countries with dual conditions of high unemployment rate and high incidence of poverty. MEZOs may provide one solution to create jobs, alleviate poverty, and stimulate economic development.

This article posits that MEZOs can be utilized as a tool to supplement and enhance the microenterprise development programs of countries. With high unemployment rates and high incidences of poverty in many parts of the world, MEZOs offer a creative approach towards supporting and expanding microenterprise activity. The MEZOs address several challenges and barriers to growth that microenterprises face. MEZOs provide an accessible and attractive location, work venue and infrastructure, enhanced social network, improved supply chain integration, access to a wide range of business support, including financial, research and information, technology, and legal services. It is an opportunity to strengthen business efficiencies and improve productivity. Clustered in one strategic zone, MEZOs can revive and bring communities together while simultaneously offering a convenient venue that facilitates the efficient delivery of government services.

10. Conclusion and implications

This study presents an exploratory study of one city's experience with MEZOs in China. Further exploration and refinement of a model that is applicable to China with its vast differences is needed. Through additional research and field implementation, the strengths and weaknesses associated with the MEZO model can be better understood and applied. It is emphasized that due to diversity of influencing factors, variations of the model and its execution will differ across countries. The authors recommend that countries that are considering the use of MEZOs need to develop a project team or committee that will closely collaborate on the research, planning, and execution of the project. China has utilized a team approach to problem solving and its culture would particularly fit the use of a team analysis of the applicability of MEZOs in different parts of the country.

This exploratory study suggests that microenterprises in an emerging market, such as China, need support to spur innovation, enhance management, and facilitate new product development. The MEZO model offers geographic convenience, in-house support and a collaborative setting to further the microenterprise agenda. The model needs to be explored by government officials, policy makers, non-government organizations, consultants, and private corporations as creative solutions are sought to alleviate poverty, create jobs, and stimulate economic activity. MEZOs have the potential to jump-start microenterprises by providing networks and support systems that they desperately need to survive and prosper.

Table I. Test of <i>H1</i> : correlation analysis	Performance	
	General management	0.156 *
	Staff and technology	0.214 **
	New products	0.099
Notes: *Correlation is significant at the 0.05 level (one-tailed); **correlation is significant at the 0.01 level (one-tailed)		

	Heterogeneity	Innovativeness	Proactiveness	Risk taking
General management	0.073	−0.046	0.072	−0.013
Staff and technology	0.037	−0.099	0.004	0.141 *
New products	−0.029	0.747 **	0.416 **	0.281 **
Net profit	−0.053	0.057	0.174 *	0.167 *
Growth	0.061	0.204 **	0.260 **	0.233 **
Cash flow	0.084	0.065	0.169 *	0.214 **
Sales	0.076	0.187 *	0.224 **	0.270 **

Table II.
Test of *H2* correlation analyses

Notes: *Correlation is significant at the 0.05 level (one-tailed); ** correlation is significant at the 0.01 level (one-tailed)

	General management	Staff and technology	New products
Net profit	0.120	0.243 **	0.039
Growth	0.161 *	0.144 *	0.162 *
Cash flow	0.133	0.203 **	0.026
Sales	0.132	0.161 *	0.118

Notes: *Correlation is significant at the 0.05 level (one-tailed); **Correlation is significant at the 0.01 level (one-tailed)

Table III.
Tests of *H3* and *H4*:
correlation analyses

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